

FAUJI CEMENT COMPANY LIMITED

ANNUAL REPORT 1997

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COMPANY INFORMATION AT A GLANCE

Board of Directors

Lt General Khalid Latif Moghal, HI (M), S Bt	Chairman & Chief Executive
Lt General Nazar Hussain, HI (M), T Bt	Additional Managing Director
Mr. Iltifat Rasul Khan	Director
Brig Muneeb Ur Rehman Farooqui, SI (M) (Retd)	Director
Brig Riaz Ahmed Qureshi, SI (M) (Retd)	Director
Brig Ashfaq Ahmad, SI (M) (Retd)	Director
Brig Muhammad Saeed Baig, SI (M) (Retd)	Director

Company Secretary:	Brig Bashir Hussain Tareen (Retd)
Registered Office:	70-Harley Street, Rawalpindi Cantt.
Plant Site:	Near Village Jhang, Tehsil Fateh Jhang, District Attock
Auditors:	A.F. Ferguson & Co. Chartered Accountants
Legal Advisors:	Orr, Dignam & Co. Advocates.

NOTICE OF FIFTH ANNUAL GENERAL MEETING

Notice is hereby given that the Fifth Annual General Meeting of the Company will be held at 10 A.M. on Wednesday, 24 December 1997, at Hotel Pearl Continental, The Mall, Rawalpindi to transact the following business:-

a. To consider, approve and adopt the Audited Accounts of the Company for the period commencing from 01 July 1996 ending on 30th June

1997.

b. To consider and approve the Directors' Report for the period ending on 30th June 1997.

c. To appoint Auditors of the Company in place of present auditors M/S A. F. Ferguson & Company who retire and offer themselves for re-appointment and to fix their remuneration.

d. To transact any other business with the permission of the Chair.

Place: Rawalpindi

Brig Bashir Hussain Tareen (Retd)

Date: 26th November 1997

Company Secretary

NOTE:

The Member entitled to attend and vote at the Annual General Meeting may appoint a person/representative as proxy to attend and vote in place of the Member at the Meeting. Proxies in order to be effective must be received at the Company's Registered Office not later than 10 A.M. on December 22, 1997. Proxy form is attached.

REPORT OF THE DIRECTORS

1. General

The Directors take pleasure in presenting their Fifth Annual Report together with the Company's Audited Accounts for the year ended 30 June 1997, and the Auditors' Report thereon. During the year under review, the Company achieved a remarkable progress in that the Company has been able to overcome many obstacles. As per the revised schedule, we were able to commission the Plant which is a great achievement because of the problems we faced in the beginning.

2. Trial Runs and Commissioning of the Plant

Trial runs started in June 1997 which, unlike other plants, were very successful leading to smooth commissioning of the Project. The honorable members must have read in the press that our Plant was inaugurated on 11 November 1997 by Chaudhary Nisar Ali Khan, the Federal Minister for Petroleum and Natural Resources. The Plant is being managed by Messrs F L Smidth & Co, a highly reputable firm who have helped us produce a very high quality of cement meeting the international standards.

3. Project Completion

The Directors take pride in informing our shareholders that the Project is now complete and has begun commercial production.

4. Marketing

Although the cement market is faced with an over supply situation, we have been fortunate to enter the market with good reputation of Fauji Foundation. We are successfully competing with other cement producers in the Country. Our Marketing Division has done very well. They formulated a very sound marketing strategy which has proved to be very useful. Hopefully when the development activity in the Country picks-up, our marketing situation will further improve.

5. The Pattern of Share-holdings as on 30-06-1997.

Annex 'A'.

6. Personnel

Relationship between Management and the workers remained cordial.

7. Directors

a. The following changes occurred in the composition of the Board since the last Annual General Meeting held in December 1996:-

(1) On resignation of Lt General M. Arif Bangash, Lt General Khalid Latif Moghal, HI(M), S Bt, was appointed as the new Chairman of the Board of Directors and Managing Director and Chief Executive of the Company.

(2) On resignation of Brigadier Muhammad Ahsan Bhatti (Retd), Brigadier Ashfaq Ahmad (Retd) was appointed as Director of the Company.

(3) On resignation of Brigadier Mushtaq Ali Khan (Retd), Brig Muhammad Saeed Baig (Retd) was appointed as Director of the Company.

b. The Board places on record its appreciation for the valuable advice and services rendered by the retiring Directors and welcomes the new Directors on the Board.

8. Auditors

M/s A. F. Ferguson & Company, Chartered Accountants, retire at the conclusion of the Fifth Annual General Meeting and, being eligible, have offered themselves for re-appointment.

9. Dividend

Since the Company has commenced production .only recently, it has not made any profit during the year ended 30 June 1997. We are therefore not in a posi-

tion to pay any dividends, nor carry any amount to Reserve Fund, General Reserve Fund or Reserve Account.

10. Financial Position

Further there are no material changes affecting business or the financial position of the Company, which have occurred between the end of the Financial Period of the Company to which the Balance Sheet relates and the date of the Report.

11. Acknowledgments

The Directors also express their appreciation for the continued support and contributions by the employees, suppliers, shareholders, the Government and various other agencies throughout the year.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Fauji Cement Company Limited as at June 30, 1997 and cash flow statement for the year ended June 30, 1997 together with the notes forming part thereof, and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and after due verification thereof, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion

(i) the balance sheet together with the notes thereon has been drawn up in conformity with the Companies Ordinance, 1984, and is in agreement with the books of account and is further in accordance with the Company's accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet and the cash flow statement, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984, in the manner so required and give a true and fair view of the state of the Company's affairs as at June 30, 1997 and of cash flows for the year then ended; and

(d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Islamabad
November 25, 1997

A.F. Ferguson & Co.
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 1997

	Note	1997 Rupees	1996 Rupees
SHAREHOLDERS EQUITY			
Share capital			
Authorised capital			
250,000,000 ordinary shares of Rs. 10 each		2,500,000,000	2,500,000,000
		=====	=====
Issued, subscribed and paid-up capital			
171,310,499 (1996:150,857,499) ordinary shares of Rs 10 each		1,713,104,990	1,508,574,990
LONG TERM LOANS	3	3,554,224,462	3,315,351,898
CURRENT LIABILITIES			
Current portion of long term loans	3	338,861,104	137,560,500
Creditors, accrued and other liabilities	4	337,056,397	263,651,497
		-----	-----
		675,917,501	401,211,997
CONTINGENCIES AND COMMITMENTS	5		
		-----	-----
		5,943,246,953	5,225,138,885
		=====	=====
The annexed notes form an integral part of these accounts.			
FIXED CAPITAL EXPENDITURE			
Fixed assets	6	162,735,975	144,856,659
Capital work in progress	7	5,167,323,730	3,788,045,733
Stores held for capital expenditure		2,145,331	--
		-----	-----
		5,332,205,036	3,932,902,392
LONG TERM SECURITY DEPOSITS AND RECEIVABLE	8	48,772,234	21,609,310
DEFERRED COST CURRENT ASSETS	9	18,412,138	8,941,421

Stores and stocks	10	14,325,755	--
Advances, prepayments and other receivables	11	94,241,931	180,195,911
Cash and bank balances	12	435,289,859	1,081,489,851
		-----	-----
		543,857,545	1,261,685,762
		-----	-----
		5,943,246,953	5,225,138,885
		=====	=====

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 1997

	1997	1996
	Rupees	Rupees
INVESTING ACTIVITIES		
Fixed capital expenditure	(594,115,555)	(1,215,044,358)
Long term security deposits	(54,300)	(21,609,310)
Deferred cost	(9,470,717)	(6,425,971)
Income received on bank deposits	76,986,093	39,500,520
	-----	-----
Net cash inflow/(outflow) from investing activities	(526,654,479)	(1,203,579,119)
FINANCING ACTIVITIES		
Proceeds from issue of shares	204,530,000	501,281,873
Long term loans received	184,841,405	1,901,988,210
Repayment of short term loan/finance	--	(208,284,400)
Financial charges paid	(508,916,918)	(395,400,354)
	-----	-----
Net cash inflow/(outflow) from financing activities	(119,545,513)	1,799,585,329
	-----	-----
NET INCREASE/(DECREASE)		
IN CASH AND CASH EQUIVALENTS	(646,199,992)	596,006,210
CASH AND CASH EQUIVALENTS		
AT THE BEGINNING OF THE YEAR	1,081,489,851	485,483,641
	-----	-----
CASH AND CASH EQUIVALENTS		
AT THE END OF THE YEAR	435,289,859	1,081,489,851
	=====	=====

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 1997

1. LEGAL STATUS AND OPERATIONS

The Company was incorporated in Pakistan on November 23, 1992 as a public limited company for the establishment and operation of a cement plant at Fateh

Jang, District Attock, Punjab. Its shares are quoted on the stock exchanges in Pakistan.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

The accounts have been prepared under the historical cost convention.

2.2 Fixed capital expenditure

Fixed assets except freehold land are stated at cost less accumulated depreciation. Freehold land and capital work in progress are stated at cost.

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Depreciation is provided on straight line method to write off the cost of an asset over its estimated useful life. Full year's depreciation is provided on additions during the first six months of the year whereas half year's depreciation is provided on additions during the last six months of the year. No depreciation is provided on assets deleted during the year.

2.3 Deferred cost

Costs related to Company's incorporation and issue of shares have been deferred to be amortised after commencement of commercial production.

2.4 Foreign currency transactions

Transactions in foreign currencies are converted into rupees at the rates of exchange ruling on the date of the transaction. All assets and liabilities in foreign currencies are translated at exchange rates prevailing at the balance sheet date, except for foreign currency loans in respect of which exchange risk coverage has been obtained; such loans are translated at the rate of exchange ruling on the date of disbursement or conversion of foreign currency into rupees, as applicable. All exchange differences are included in unallocated preproduction expenditure.

2.5 Stores and stocks

These are stated at cost

3. LONG TERM LOANS- SECURED

Balance outstanding		Repayment terms			
1997	1996	Interest/net mark up rate	Exchange risk coverage fee	Half yearly equal installments	Commencing from
Rupees	Rupees	per annum	%		
		%	(Note 3.3)		

1. Commonwealth Development Corporation - (CDC)

(Pound Sterling 13,250,000; 1996: 9,937,000)	684,613,227	499,771,822	11	5.9	14	December 23, 1997
2. Nederlandse Financierings - Maatschappijvoor Ontwikkelingslanden N.V. (FMO) (Netherland Guilders 15,000,000)	288,116,250	288,116,250	11.30	5	15	April 15, 1998
3. International Finance Corporation (Loan A) (US Dollars 24,000,000)	941,556,480	787,820,400	8.9375	8.26	15	April 15, 1998
4. International Finance Corporation (Loan B) (US Dollars 10,000,000)	392,315,200	329,213,500	LIBOR + 2.50	8.26	8	April 15, 1998
5. International Finance Corporation (Loan C) (US Dollars 10,000,000)	329,566,000	329,566,000	LIBOR + 3.00	9.38	8	April 15, 1998
6. Deutsche Investitions - und Entwicklungsgesellschaft mbH (DEG) (DM 15,000,000)	360,633,000	360,633,000	11.75	8.24	12	November 30, 1998
7. AI Faysal Investment Bank Limited	130,000,000	130,000,000	19		10	June 21, 1998
8. ANZ Grindlays Bank plc	150,000,000	150,000,000	Note 3.1		10	November 30, 1997
9. The Bank of Punjab	316,285,409	277,791,426	19		6	September 19, 1997
10. Askari Commercial Bank Limited	100,000,000	100,000,000	19		10	June 30, 1998
11. Faysal Bank Limited	70,000,000	70,000,000	19		10	October 27, 1998
12. Saudi Pak Industrial and Agricultural Investment Company (Private) Limited	50,000,000	50,000,000	20		10	September 30, 1998
13. Pakistan Kuwait Investment Company (Private) Limited	80,000,000	80,000,000	Note 3.2		17	July 01, 1998
	-----	-----				
	3,893,085,566	3,452,912,398				
Less: Current portion of long term loans	(338,861,104)	(137,560,500)				
	-----	-----				
	3,554,224,462	3,315,351,898				

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3.1 The mark up on ANZ Grindlays Bank loan is payable at State Bank of Pakistan Treasury Bills rate plus 4% per annum (minimum 17.5% per annum), subject to prompt payment bonus of Rs. 13,089,041 on repayment of the loan on due dates.

3.2 The loan from Pakistan Kuwait Investment Company (Private) Limited is under sale and repurchase arrangement carrying a repurchase price of Rs. 218,654,2 subject to a prompt payment bonus of Rs. 50,419,726 on repayment of the loan on due dates.

3.3 Exchange risk coverage has been obtained in respect of foreign currency loans 1 to 6 above. The loans are repayable in equivalent Pakistan rupees converted at the exchange rate ruling on the date of disbursement or conversion of foreign currency into rupees, as applicable.

The above loans are secured by first ranking equitable mortgage and floating charge on all present and future assets of the Company.

4. CREDITORS, ACCRUED AND OTHER LIABILITIES

	1997	1996
	Rupees	Rupees
Retention money	26,217,059	25,936,719
Accrued fees and charges on long term loans	746,904	513,431
Accrued interest/mark up on loans	71,040,505	56,141,408
Accrued exchange risk coverage fee on foreign currency loans	193,566,627	127,915,142
Amount due to an associated undertaking	3,452,500	17,108,070
	42,032,802	36,036,727
	-----	-----
	337,056,397	263,651,497
	=====	=====

5. CONTINGENCIES AND COMMITMENTS

5.1 Contingencies

The customs authorities allowed release of plant and machinery imported by the Company at concessionary rates of duty in terms of SRO 484(1)/92 dated May 14, 1992 against an undertaking provided by the Company. Subsequent to the release of plant and machinery the customs authorities have raised a custom duty and sales tax demand of Rs 347 million in respect of items which are considered by the Central Board of Revenue as not qualifying for the concessionary rate of duty. Claims on similar basis have also been raised on two other cement manufacturing companies. The Company has filed a writ petition against the demand which is currently pending. The Company's legal advisors are of the opinion that the Company's petition will succeed.

5.2 Commitments outstanding

Capital expenditure commitments outstanding at June 30, 1997 amounted to Rs 187 million (1996: Rs 519 million).

6. FIXED ASSETS

	C O S T		
	At July 1, 1996	Additions during the year	At June 30, 1997
Freehold land	137,539,315	3,923,248	141,462,563
Office equipment	789,605	572,256	1,361,861
Electrical equipment	603,911	6,784,704	7,388,615
Furniture and fixtures	639,683	2,799,084	3,438,767
Motor vehicles	7,948,450	8,353,583	16,302,033
Total Rupees	147,520,964	22,432,875	169,953,839
1996 Rupees	140,448,686	7,072,278	147,520,964

D E P R E C I A T I O N

	At July 1, 1996	Charge for the year	Accumulated depreciation at June 30, 1997	Written down value at June 30, 1997	Annual Rate of depreciation %
	-	-	-	141,462,563	-
	156,593	178,558	335,151	1,026,710	15
	65,054	605,610	670,664	6,717,951	15
	103,606	385,772	489,378	2,949,389	15
	2,339,052	3,383,619	5,722,671	10,579,362	25
	2,664,305	4,553,559	7,217,864	162,735,975	

855,278	1,809,027	2,664,305	144,856,659
=====	=====	=====	=====

7. CAPITAL WORK IN PROGRESS

	1997	1996
	Rupees	Rupees
Plant and machinery	2,812,848,637	2,462,940,112
Civil Works	964,877,156	562,337,339
Unallocated preproduction expenditure - note 7.1	1,389,597,937	762,768,282
	-----	-----
	5,167,323,730	3,788,045,733
	=====	=====

7.1 UNALLOCATED PREPRODUCTION EXPENDITURE

Salaries and allowances	17,717,529	6,476,852
Insurance	9,462,431	8,257,599
Travelling expenses	2,420,650	1,280,285
Technical consultancy services	54,530,048	50,433,599
Fees and charges related to long term loans	122,907,964	111,681,747
Interest/mark up on loans - net of interest income Rs. 138,139,466; (1996: Rs. 74,155,992)	795,598,523	393,765,677
Exchange risk coverage fee on foreign currency loans	260,853,804	156,474,448
Development cost and expenses charged by an associated undertaking	30,331,031	26,597,722
Mark-up charged by an associated undertaking	31,280,361	30,842,306
Bank charges and commission	12,247,180	10,546,929
Legal and professional charges*	8,558,993	6,697,896
Guarantee commission	678,201	678,201
Depreciation	7,217,864	2,664,305
Advertisement	1,059,330	294,760
Printing and stationery	1,234,006	603,026
Exchange loss/(gain)	15,856,300	(50,575,619)
Donations**	44,300	44,300
Other expenses	17,599,422	6,004,249
	-----	-----
	1,389,597,937	762,768,282
	=====	=====

*These include auditors' remuneration comprising audit fee for the year Rs. 175,000 (1996: Rs 160,000) and fee for tax and other services Rs. 57,861 (1996: Rs. 127,680).

**No director or his spouse had any interest in the donee institutions.

8. LONG TERM SECURITY DEPOSITS AND RECEIVABLE

These include:

(a) security deposit of Rs. 21,600,000 to WAPDA related to supply of

30MW power for the cement plant.

- (b) cost of equipment and spares Rs 27,108,624 reimbursable by a contractor in 60 monthly installments effective from the date of commencement of operations.

9. DEFERRED COST

	1997	1996
	Rupees	Rupees
Preliminary expenses	2,515,450	2,515,450
Expenses on issue of shares	15,838,503	6,425,971
Brokerage commission	58,185	--
	-----	-----
	18,412,138	8,941,421
	=====	=====

10. STORES AND STOCKS

Stores	1,033,171	-
Spares	1,999,118	-
Loose tools	2,128,466	-
Stocks - raw material	9,165,000	-
	-----	-----
	14,325,755	-
	=====	=====

11. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Advances to suppliers and contractors, considered good	21,461,907	104,820,672
Advance for purchase of land	--	3,821,909
Advance for expenditure	2,406,930	12,822,658
Advance income tax	246,260	246,260
Prepayments	12,953,221	13,892,046
Interest income receivable	8,167,383	21,170,002
Exchange difference on foreign currency loans reimbursable by State Bank of Pakistan	35,400,737	--
Other receivables	13,605,493	23,422,364
	-----	-----
	94,241,931	180,195,911
	=====	=====

12. CASH AND BANK BALANCES

At banks:		
Deposit accounts	117,090,148	11,108,872
Current accounts	11,200,272	5,986,532
Special foreign currency accounts	306,989,439	1,064,394,447
US \$ 7,595,083 (1996: US \$ 30,354, 983)		

Cash in hand	10,000	--
	-----	-----
	435,289,859	1,081,489,851
	=====	=====

13. REMUNERATION OF DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the accounts of the year for remuneration, including benefits and perquisites were as follows:

	Working Director		Executives	
	1997 Rupees	1996 Rupees	1997 Rupees	1996 Rupees
Managerial Remuneration	904,107	--	1,724,448	1,278,960
Company's contribution to provident fund	48,910	--	89,620	--
Utilities and upkeep	217,691	--	442,453	333,689
	-----	-----	-----	-----
	1,170,708	--	2,256,521	1,612,649
	=====	=====	=====	=====
No of persons	1	--	4	4

In addition, the above were provided with free medical facilities. The working director and certain executives were also provided with free use of Company's car and household equipment in accordance with the Company's policy.

No remuneration was paid to the chief executive and other directors of the Company (1996: Nil).

14. CAPACITY AND PRODUCTION

The annual designed capacity of the plant is one million tons of cement. The Company has not yet commenced commercial production.

15. COMPARATIVE FIGURES

Previous year's figures, wherever necessary, have been rearranged for purposes of comparison.

**THE PATTERN OF SHARE HOLDINGS
AS ON 30TH JUNE 1997**

Number of Share- holders	Shareholding		Total Shares held Ordinary Shares of Rs. 10/each
	From	To	
823	1	500	408007
66	501	1000	65700
16	1001	2000	29000
4	2001	3000	11500
2	3001	4500	8000
7	4501	5500	35000
1	5501	7500	7000
2	7501	8500	16000
4	8501	9500	36000
4	9501	10500	40000
5	10501	15500	61000
1	15501	22500	20000
1	22501	32500	30000
1	32501	42500	34500
2	42501	120000	100000
2	120001	300000	500000
1	300001	550000	471600
2	550001	900000	1599400
2	900001	1500000	1853200
2	1500001	2000000	3800400
2	2000001	2300000	4122200
1	2300001	3300000	2670000
2	3300001	5000000	9304500
2	5000001	7000000	12028000
1	7000001	10100000	9350000
3	10100001	25000000	45881499
1	25000001	80000000	78827993
-----			-----
960			171310499

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	SHARES HELD	PERCENTAGE
INDIVIDUALS	937	817,207	0.48
INVESTMENT COMPANIES	5	12,771,700	7.46
INSURANCE COMPANIES	3	550,000	0.32

JOINT STOCK COMPANIES	3	1,206,900	0.70
FINANCIAL INSTITUTIONS	3	10,203,100	5.96
MODARABA COMPANY	1	918,100	0.53
FOREIGN INVESTORS	6	63,915,499	37.31
OTHERS			
FAUJI FOUNDATION	1	78,827,993	46.01
FCCL EMPLOYEES TRUST	1	2,100,000	1.23
	-----	-----	-----
	960	171,310,499	100.00